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India

Coffee

Annual

2003

Approved by:

Chad Russell

U.S. Embassy

Prepared by:

A. Govindan

Report Highlights:

Coffee production in MY 2002/03 is estimated to decline by 8 percent to 4.6 million bags and is forecast to recover marginally to 4.7 million bags in MY 2003/04. Coffee exports in MY 2002/03 are estimated to decline by 7 percent to 3.2 million bags.

Includes PSD changes: Yes

Includes Trade Matrix: Yes

Annual Report

New Delhi [IN1], IN

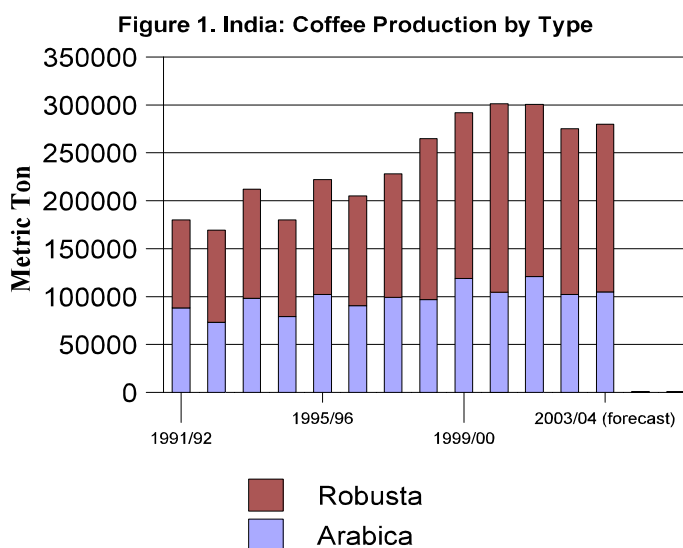
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PRODUCTION

India's 2003/04 coffee production is forecast slightly higher at 4.7 million bags (280,000 tons) over the revised 2002/03 output of 4.6 million bags (275,275 tons), but below the record 2000/01 output of 5 million bags. The optimism stems from fairly well-distributed pre-blossom showers in the coffee growing areas (resulting in better wood formation), expected normal post-blossom rains, and some expansion in coffee production in non-traditional areas of Andhra Pradesh. Production ratio by category (arabica vs. robusta) is expected to remain more or less unchanged at 40:60. A marginal improvement in coffee prices in recent months in response to a reportedly lower Brazilian crop should spur farm input application and adoption of better agronomical practices by producers, thereby helping crop quality. Coffee area has remained more or less unchanged in the traditional growing areas.

Production is mostly confined to the three southern states of Karnataka (69 percent), Kerala (22 percent), and Tamil Nadu (7 percent). Coffee is typically grown under the shade of trees, and intercropping with crops such as pepper and oranges is common in robusta areas. Of the 178,300 total coffee holdings, 98 percent are small (less than 10 hectares) accounting for 60 percent of production in 2001/02. There are only 167 holdings of 100 hectares or more. Although the Coffee Board is advocating a shift from robusta to arabica based on recommendations by a consultant study, industry sources consider a large shift infeasible. Recently India entered the arena of speciality coffees, with special focus on "Estate Branded," which is said to have unique cup quality characteristics. Due to growing domestic and export demand, the production of instant and other soluble coffees is increasing, and capacity is expanding.



High 1997 and 1998 coffee prices, along with the liberalization of the coffee trade in the mid-nineties, encouraged Indian growers to invest part of their profits in upgrading plantations, which resulted in steady growth in production and processing capacity. The recent steep decline in coffee prices, however, has eroded profitability, prompting farmers to cut spending on their holdings, and resulting in lower production (**Figure 1**).

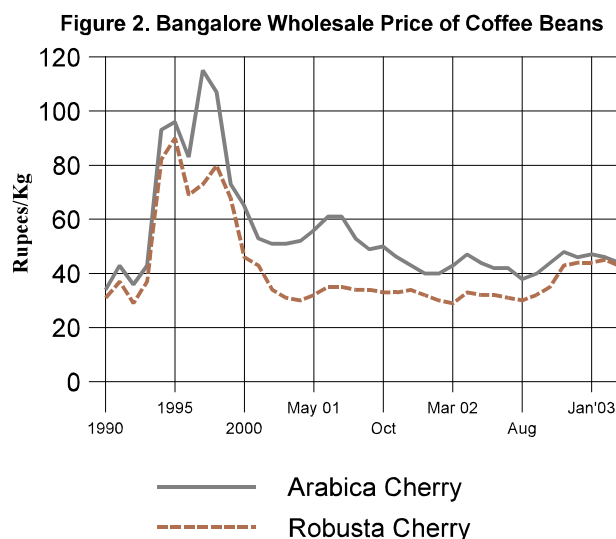
India has 74 licensed, privately owned, well-equipped curing/processing plants. The quality standards issued by the Coffee Board are used for the processing of both exported and domestically-consumed coffees.

CONSUMPTION

According to the latest Coffee Board estimates, domestic coffee consumption in 2001 (latest data available) was 64,000 tons, or 1.07 million bags (64 grams per year or 0.5 cups per capita per day), and is mostly confined to the southern states of Tamil Nadu and Karnataka (80 percent). Consumption is estimated to have increased marginally in subsequent years. A recent survey commissioned by the Coffee Board revealed that, although coffee is used widely in urban India (82 percent, compared with tea at 93 percent), roasted and ground coffee penetration is only 19 percent, whereas instant coffee is used by 74 percent. In India, coffee powder is blended with chicory to make the coffee stronger. In some brands the chicory content is as high as 40 percent. While coffee's major competitor has historically been tea, soft drinks, fruit drinks, and bottled mineral water are posing new challenges.

In the past few years the coffee-shop culture has spread throughout major cities in India, and seems poised for further growth. This should help lift coffee consumption. Currently there are several large companies offering a wide array of coffee preparations that are becoming increasingly popular among high income consumers, especially affluent young people.

With the Indian coffee market becoming closely integrated with the international market, thanks to widespread access to computers and Internet, Indian coffee prices have moved in tandem with international prices. Indicative Bangalore wholesale prices, after reaching the lowest level of rs. 38 per kg for Arabica Cherry and rs. 30 per kg for Robusta Cherry in August 2002, recovered marginally in the following months on reports of a poor Brazilian crop, reaching rs. 47 and rs. 44 per kg, respectively, in February 2003. They have since dipped again in March (**Figure 2**).



TRADE

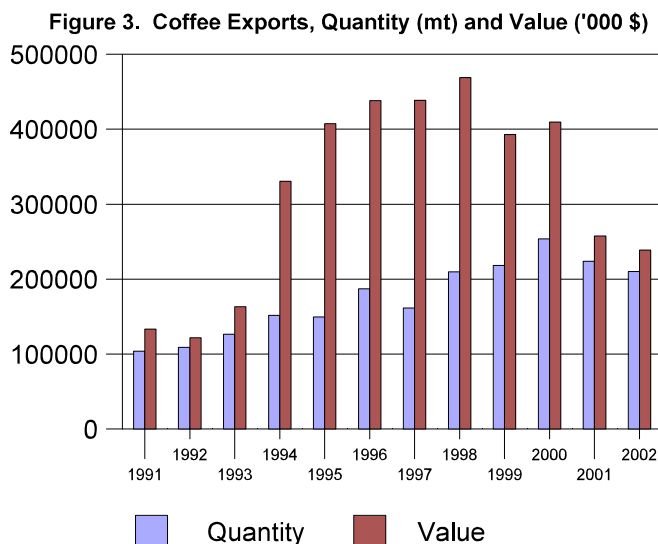
MY 2002/03 (Oct-Sep) coffee exports are forecast at 190,000 tons compared with 206,470 tons in MY 2001/02 and 222,286 tons in MY 2000/01. Exports from October 2002 to March 2003 were 58,433 tons, compared with 95,562 tons during the same period of MY 2001/02.

After reaching a record 253,524 tons in CY 2000, exports declined to 223,786 tons in CY 2001, and further to 210,242 tons in CY 2002. From January through March 2003, shipments totaled 29,035 tons, significantly down from 69,990 tons exported during Jan-Mar 2002. Export earnings from coffee also dropped from rs. 16.9 billion (\$410 million) in CY 2000 to rs. 10.3 billion (\$239 million) in 2002 (**Figure 3**). The export of special and value added coffee,

however, rose significantly to 45,741 tons (green bean equivalent) in CY 2000, to 48,240 tons in CY 2001, and further to 49,357 tons (including 42,800 tons of instant coffee) in 2002. Russia has emerged as a major market for Indian instant coffee, accounting for 81 percent of total exports in CY 2002.

India, with a global production share of 4.5 percent, also accounts for approximately 4.5 of world trade.

Although India exports coffee to more than 40 countries, the top six markets are Italy, Russia, Germany, Belgium, Spain, and Slovenia. Exports to the United States have declined sharply in CY 2002 to 4,189 tons from 9,882 tons in CY 2001, pushing the US to the ninth position. Cheaper availability of coffee from neighboring South America, and increased freight costs from India, are reported to be factors responsible for the loss of the Indian market share. However, some efforts are being made to promote India's speciality coffee in the US.



India's export-oriented coffee units import small quantities of coffee duty free (mostly cheap Vietnamese) for blending and re-export. Imports for domestic consumption are negligible. The hike in the import duty from 70 percent to 100 percent in last year's budget make imports even less feasible. Nonetheless, India's imports of instant coffee increased significantly to 762 tons (1,981 green bean equivalent) in 2001 from 6 tons in CY 2000, mostly from Indonesia. CY 2002 data are not yet available.

STOCKS

Following the liberalization of coffee marketing in the mid-nineties, no reliable estimates of stocks are available since the Coffee Board monopoly ended. According to trade sources, year end stocks are typically around 10,000 tons (170,000 bags). However, 2001/02 ending stocks are estimated at 50,000 tons (831,000 bags), due to lower exports and slow growth in consumption. MY 2002/03 ending stocks are estimated still higher at 1.1 million bags due to a likely further decline in exports.

MARKETING

The Coffee Board of India is entrusted with the domestic and international promotion of Indian coffee. In February 2002, the Coffee Board and the United Planters Association of Southern India jointly organized an "India International Coffee Festival" in Bangalore to showcase Indian coffee. The Board also promotes Indian coffee in major overseas exhibitions. Recently a large Indian delegation, headed by the Chairperson of the Indian Coffee Board, participated in the World Speciality Coffee Conference & Exhibition in Boston.

Until 1992/93, coffee marketing was wholly administered and regulated by the Coffee Board. However, following the process of liberalization which started in 1993, all restrictions on coffee marketing were abolished. Due to the dismantling of auctions by the Coffee Board, less than 10 percent of the coffee is now sold through auctions. Most small growers prefer to sell their unprocessed crop directly to exporters or roasters.

Although India is an exporter of coffee, the proliferation of modern espresso coffee shops in major cities provides an opportunity for US companies to supply products such as syrups, speciality coffees, etc. As India is a producer of speciality coffee, US coffee companies interested in setting up their operations in India may find it cheaper to source coffee domestically because of the high import duty on coffee.

POLICY

To provide relief to the beleaguered coffee industry, the government provides a rs. 0.50 per kg (\$10.5 per metric ton) transportation subsidy to exporters. The export subsidy scheme was in operation in Indian FY 2002/03 (Apr-Mar), and is likely to continue in 2003/04.

The Reserve Bank of India, India's Central Bank, has announced a relief package for the coffee sector, which includes the rescheduling of loans and lowering of interest rates.

The state government of Karnataka, the largest coffee producing state, has exempted small and marginal coffee growers (holding of less than 50 acres) from the agricultural income tax. This should discourage coffee growers switching to other crops.

With a view to providing price stability to small growers of coffee, tea, and rubber, a Price Stabilization Fund of rs. 5 billion (\$104 million) has been created by the government in this year's budget. The interest earned from this fund, and membership fees from participating farmers, will be used to provide price support to farmers who participate in this program. The modalities of the scheme are still being worked out.

Table 1: Commodity, Coffee, Green, PSD Table

PSD Table							
Country:	India						
Commodity:	Coffee, Green						
		2002		2003		2004	UOM
	Old	New	Old	New	Old	New	
Market Year Begin		10/2001		10/2002		10/2003	(MONTH/YEAR)
Area Planted	349	347	349	349	0	349	(1000 HA)
Area Harvested	310	321	308	323	0	323	(1000 HA)
Bearing Trees	535	550	535	555	0	555	(1000 TREES)
Non-Bearing Trees	65	65	65	65	0	65	(1000 TREES)
TOTAL Tree Population	600	615	600	620	0	620	(1000 TREES)
Beginning Stocks	363	363	872	831	0	1063	(1000 60 KG BAGS)
Arabica Production	2018	2018	1763	1702	0	1750	(1000 60 KG BAGS)
Robusta Production	2992	2992	2904	2886	0	2910	(1000 60 KG BAGS)
Other Production	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Production	5010	5010	4667	4588	0	4660	(1000 60 KG BAGS)
Bean Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
Roast & Ground Imports	0	0	0	0	0	0	(1000 60 KG BAGS)

Soluble Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL Imports	0	0	0	0	0	0	(1000 60 KG BAGS)
TOTAL SUPPLY	5373	5373	5539	5419	0	5723	(1000 60 KG BAGS)
Bean Exports	2700	2689	2800	2500	0	2800	(1000 60 KG BAGS)
Roast & Ground Exports	1	1	1	1	0	1	(1000 60 KG BAGS)
Soluble Exports	700	752	700	700	0	750	(1000 60 KG BAGS)
TOTAL Exports	3401	3442	3501	3201	0	3551	(1000 60 KG BAGS)
Rst,Ground Dom. Consum	925	925	970	970	0	980	(1000 60 KG BAGS)
Soluble Dom. Consum.	175	175	180	185	0	190	(1000 60 KG BAGS)
TOTAL Dom. Consumption	1100	1100	1150	1155	0	1170	(1000 60 KG BAGS)
Ending Stocks	872	831	888	1063	0	1002	(1000 60 KG BAGS)
TOTAL DISTRIBUTION	5373	5373	5539	5419	0	5723	(1000 60 KG BAGS)

Table 2: Coffee, Green, Export Trade Matrix

Export Trade Matrix			
Country:		Units:	Metric Tons
Commodity:			
Time period:	Jan-Dec		Jan-Mar
Exports for	2002		2003
U.S.	4,189	U.S.	214
Others		Others	
Italy	44,616	Italy	7,273
Russian Federation	37,600	Russian Federation	3,402
Germany	27,970	Belgium	2,934
Belgium	15,023	Germany	2,487
Spain	10,508	Spain	1,901
Slovenia	8,797	Slovenia	1,176
Japan	5,580	Algeria	945
Greece	4,940	Japan	868
Netherlands	4,114	UAE	864
Kuwait	3,861	Switzerland	721
Total for Others	163,009		22,571
Others not listed	43,044		6,250
Grand Total	210,242		29,035

Table 3: Coffee, Green, Prices Table

Prices Table			
Country:			
Commodity:	Coffee Arabica		
Year:	2002		
Prices in (currency)	rupees	per (uom)	50 kg
Year	2002	2003	% Change
Jan	2631	3172	20.6%
Feb	2501	3183	27.3%
Mar	2729	2969	8.8%
Apr	2973	NA	NA
May	2817	NA	NA
Jun	2674	NA	NA
Jul	2654	NA	NA
Aug	2608	NA	NA
Sep	2763	NA	NA
Oct	2934	NA	NA
Nov	3382	NA	NA
Dec	3447	NA	NA
Exchange Rate	47	(Local currency/U S \$)	
Date of Quote	10-May-02	(MM/DD/YY)	

Note: Auction price for Plantation 'A' at ICTA Bangalore.